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TO AMEMBASSY KINSHASA

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E.O. 11652: N/A

TAGS: EFIN, EMIN, CG

SUBJECT: WASHINGTON POST ARTICLE ON EFFECTS OF KATANGAN
ATTACK ON COPPER MINING

1. FOLLOWING ARTICLE, ENTITLED "HALT TO COPPER MINING
SEEN AS CRIPPLING ZAIRE" BY COLLEEN SULLIVAN APPEARED
ON PAGE D8 OF MAY 23 EDITION OF WASHINGTON POST.
QUOTE: THE BLOW STRUCK BY KATANGAN REBELS AT ZAIRE'S
ECONOMIC JUGULAR -- MINERAL-RICH SHABA PROVINCE --SPELLS
CERTAIN FINANCIAL DISASTER FOR THE COUNTRY AS WELL AS
SUPPLY DISRUPTIONS FOR WORLD COPPER AND COBALT MARKETS,
ACCORDING TO U.S. GOVERNMENT AND FINANCIAL SOURCES.
REPORTS FROM THE BATTLE AREA, CONFIRMED BY THE GRIM
AND WEARY REFUGEES ARRIVING IN BRUSSELS OVER THE WEEKEND,
SAID THE GUERRILLAS' SABOTAGE COMBINED WITH POWER FAILURES
HALTED THE MINES' WATER PUMPS, LEADING TO WIDESPREAD
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FLOODING.

ANALYSTS AGREED THAT IT WOULD TAKE FROM SIX MONTHS TO
A FEW YEARS TO RESUME OPERATIONS AT THE MINES, WHICH
PROVIDE 60 PERCENT OF ZAIRE'S FOREIGN EXCHANGE EARNINGS
EACH YEAR.

THE FLIGHT OF THE EUROPEAN ENGINEERS AND TECHNICIANS
WHO MANAGE THE OPERATIONS AND THE PERENNIAL SHORTAGE OF

AFRICAN WHITE COLLAR WORKERS COULD KEEP THE MINES OUT OF COMMISSION EVEN LONGER, THE ANALYSTS SAID.

KOLWEZI, THE CENTER OF THE COUNTRY'S MINING ACTIVITY, IS HOME TO FIVE OF THE SIX OPEN-PIT MINES OF THE STATE-OWNED GECAMINES CO. AND TO THE LARGEST UNDERGROUND COPPER MINE, KAMATO.

MORE THAN 75 PERCENT OF THE APPROXIMATELY 425,000 SHORT TONS OF COPPER PRODUCED IN ZAIRE ANNUALLY AS WELL AS 90 PERCENT OF ITS COBALT EITHER ORIGINATES IN KOLWEZI DISTRICT OR IS REFINED THERE. ALL OF THE NATION'S ZINC AND CADMIUM IS PRODUCED AT THE METALKAT FACTORY THERE AS WELL.

SIXTY-FIVE PERCENT OF THE WEST'S COBALT -- A STRATEGIC METAL USED IN HEAT-RESISTING ALLOYS AND NUCLEAR MEDICINE-- IS PRODUCED BY ZAIRE.

INTERNATIONAL MONETARY FUND STATISTICS SHOW THAT ZAIRE'S EXPORTS TOTALED 603.07 MILLION DOLLARS IN 1976, WITH COPPER LEADING THE LIST AT 255.42 MILLION DOLLARS. COFFEE IS ITS SECOND MAJOR COMMODITY EXPORT, FOLLOWED BY COBALT AND . . DIAMONDS.

A DIPLOMAT IN LUSAKA, ZAMBIA, TOLD NEWSMEN THAT THE REBELS HAD INFLICTED MORE DAMAGE ON PRESIDENT MOBUTU SESE SEKO'S GOVERNMENT BY HOLDING KOLWEZI FOR A WEEK THAN IF THEY HAD CARRIED OUT A LENGTHY GUERRILLA CAMPAIGN. THE LONG-DEPRESSED WORLD COPPER MARKET, HOWEVER, LIMITED OFFICIAL USE

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STANDS TO BENEFIT FROM THE SHUTDOWN OF ZAIRE'S OUTPUT. COPPER PRICES PEAKED AT 1.45 DOLLARS A POUND IN MAY 1974 BUT DRIFTED PERSISTENTLY LOWER TO 58.20 CENTS A POUND ON THE JULY CONTRACT TRADED ON NEW YORK'S COMMODITY EXCHANGE INC. ON MAY 12.

AS RICHARD GRIPENBERG OF MOCATTA METALS CORP. IN NEW YORK EXPLAINED, ZAIRE'S ABSENCE FROM THE COPPER MARKET COULD WIPE OUT THE ONE-MILLION-TON OR SO WORLD SURPLUS IN ABOUT 18 MONTHS, BOOSTING PRICES SUBSTANTIALLY IN THE PROCESS. SINCE THE KOLWEZI BATTLE BEGAN, THE JULY CONTRACT ON THE COMEX HAS RISEN TO MORE THAN 62 CENTS, HE SAID.

THE HEFTY WORLD RESERVES AND INVENTORY HOLDINGS HAVE DEPRESSED THAT MARKET, LEADING U.S. COMPANIES SUCH AS KENNECOTT COPPER CORP., ANACONDA MINING CO. AND OTHERS TO FURLOUGH WORKERS AND REDUCE OUTPUT. WESTERN CANADIAN OPERATIONS LIKEWISE HAVE BEEN CURTAILED.

THE IMPACT OF THOSE ACTIONS HAS BEEN BLUNTED BY CONTINUED FULL-STEAM-AHEAD PRODUCTION BY THIRD WORLD PRODUCING NATIONS SUCH AS PERU, CHILE AND ZAMBIA, WHICH DEPEND ON COPPER EXPORTS FOR SORELY NEEDED FOREIGN EXCHANGE.

ALTHOUGH THERE IS NO SHORTAGE OF COBALT CURRENTLY, THE
DRAMA BEING PLAYED OUT IN KOLWEZI DISTRICT IS LIKELY TO
RESULT IN A CRITICAL SHORTAGE, ANALYSTS SAID.

SOME OBSERVERS DOWNPLAYED THE EFFECTS OF THE TERRORISM
ON THE METALS MARKETS. AMONG THEM WAS JAY COOKE, SENIOR
RESEARCH ANALYST AT BACHE HALSEY STUART MODEL SHIELDS IN
NEW YORK.

"NO MATTER WHO WINS, THEY'RE GOING TO EXPORT COPPER,"
HE SAID. "IF MOBUTU WINS, HE'LL CLEAN UP THE MINES AND
TRY TO LURE THE BELGIANS BACK TO RUN THE OPERATIONS. IF
THE TERRORISTS WIN, THEY'LL PUMP THEM OUT AND MAY BE ABLE
TO USE CUBAN AND SOVIET TECHNICIANS. WHAT WE'VE GOT IT
A SHORT-TERM SUPPLY DISRUPTION AND A SHORT-TERM PRODUC-
TION DISRUPTION."

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BUT MOCATTA'S GRIPENBERG AND THE COMPANY'S CHAIRMAN,
DR. HENRY JARECKI, LED THE MAJORITY WHO DISAGREED WITH
COOKE.

"THE COUNTRY'S PRODUCTION WILL BE AT A STANDSTILL
UNTIL THEY CAN RECRUIT A LOT OF COURAGEOUS BACHELOR EN-
GINEERS WHO WOULD BE WILLING TO PUT THEIR LIVES ON THE
LINE IN A BLACK NATION," GRIPENBERG SAID. "THE OUTLOOK
IS BLEAK, TO SAY THE LEAST."

AN ANALYST AT J. AARON AND CO., ONE OF THE LARGEST
METALS TRADE HOUSES IN NEW YORK, SAID NO MAJOR COPPER OR
COBALT CONTRACT IS OUTSTANDING THAT WOULD APPEAR TO BE
UNFILLED BECAUSE OF THE ZAIRE BATTLE. "WE'LL SEE A DIS-
LOCATION OF CERTAIN QUALITIES OF COPPER REFINED IN
BELGIUM," HE SAID. "THOSE COMPANIES NEEDING CONCENTRATE
AND SOME INFERIOR GRADES OF CATHODES WILL BE LOOKING ON
THE WORLD MARKET SOON, BUT NOT FOR MUCH OF ANYTHING ELSE."
END QUOTE.

2. ENCRYPTED FOR TRANSMISSION. DECLASSIFY UPON RECEIPT.
CHRISTOPHER

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